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CIVIL AERONAUTICS BOARD REAUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION
OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

CIVIL AERONAUTICS BOARD REAUTHORIZATION

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CIVIL AERONAUTICS BOARD REAUTHORIZATION

MONDAY, FEBRUARY 28, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON AVIATION,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:39 p.m., in room SR-253, Russell Senate Office Building, Hon. Nancy Landon Kassebaum presiding.

Staff members assigned to this hearing: Kathy Meier, staff counsel and Steve Palmer, minority staff counsel.

Senator KASSEBAUM. I hope you do not feel as if the CAB is under siege these days, but certainly when you assumed the role as chairman, I am sure you knew it was not going to be an easy task. I look forward to hearing your analysis at this point and to the introduction of those that are with you.

STATEMENT OF HON. DAN McKINNON, CHAIRMAN, CIVIL AERONAUTICS BOARD; ACCOMPANIED BY: ELIZABETH BAILEY, GLORIA SCHAEFER, JIM SMITH, AND DIANE MORALES, MEMBERS; MICHAEL SHERWIN, MANAGING DIRECTOR; ANTHONY TORONTO, COMPTROLLER; JOHN COLEMAN, DIRECTOR, BUREAU OF DOMESTIC AVIATION; JOHN GOLDEN, DIRECTOR, OFFICE OF CONGRESSIONAL, COMMUNITY, AND CONSUMER AFFAIRS; AND PAUL GRETCH, DEPUTY DIRECTOR, BUREAU OF INTERNATIONAL AVIATION

Mr. McKINNON. Thank you. I appreciate that, Madam Chairman. We are just delighted to be here with you today. We have the entire Civil Aeronautics Board here with us. We have Member Betsy Bailey, Member Gloria Schaefer, and Member Jim Smith. And I tried to counterbalance the Chair, with all the intelligence and beauty up there, with some of my own down here with our newest member, Diane Morales.

We also have from our staff our comptroller, Tony Toronto; John Coleman, who heads our Bureau of Domestic Aviation; Mike Sherwin, our managing director; John Golden, who is in charge of our Office of Congressional, Community, and Consumer Relations; and Paul Gretch, who is the deputy director of our Bureau of International Aviation.

I hope we have all your answers. I have a couple of comments I would like to share with you and then any questions you may have on the Civil Aeronautics Board, I would be happy to answer.

Referring to our budget, our request totals $71.7 million—$50.8 million for payments to air carriers and $20.9 million for salaries and expenses.

The $50.8 million payments to air carriers figure is a $2.4 million increase over 1983. However, it represents a $43.5 million reduction over fiscal year 1982, the last year of a fully operational section 406 program.

The $2.4 million increase for fiscal year 1984 results primarily from inflation. We believe the $50.8 million is sufficient to fund a mature section 419 subsidy program for essential air service to approximately 120 points in the Continental United States, as well as those Alaskan communities that require subsidized service.

We have not requested funds for special or section 406 subsidy.

Our $20.9 million request for salaries and expenses in 1984, almost $3 million less than 1983, assumes that we can once again achieve sharp reductions in personnel.

When we reach our 366-position target at the end of fiscal year 1984, we will have reduced the staffing of the Board 433 positions or 54 percent since passage of the Airline Deregulation Act. At this level we should be at the core of people, excluding members and their staffs, that transfer to other agencies with the continuing functions.

We intend to manage this reduction as we have done successfully since 1979 by relying heavily on outplacement, retirements, and other normal attrition. However, this approach is becoming increasingly difficult to maintain.

If we do not achieve the attrition rate anticipated in our budget plan, we may have to request a supplemental appropriation to prevent reductions-in-force and the subsequent bumping and retreating which could decimate Board programs such as international aviation, essential air service, antitrust, regulatory information, and consumer protection, and preclude a smooth transfer to other agencies of functions not sunsetted.

Further cuts from our already reduced 1984 S&E request would all but destroy our ability to carry out mandated programs.

I would like to point out that the President's budget also includes a $700,000 supplemental request for the Board in fiscal year 1983 to cover legislated pay increases. The requested amount represents only one-half of the $1.4 million cost of the pay raise.

Our latest projections for fiscal year 1983 show that we will just break even if two events occur. They are: One, we receive the entire $700,000 supplemental; and, two, we continue to experience our attrition rate of six employees a month between now and the end of fiscal year 1983. As you can see, both of these important conditions are beyond our direct management control.

We urge you to recommend the entire $700,000 supplemental for fiscal year 1983 and the entire $20.9 million fiscal year 1984 budget to avoid serious disruptions in our community assistance, essential air service, international aviation, and other transferring programs.

I would like to emphasize that program effectiveness remains the Board's No. 1 budget priority. But the fact remains we must drop 130 people from our current level—over 25 percent of our staff.

This will occur during a period when there are no corresponding reductions in our statutory powers and program responsibilities.

Up to this point, we have been able to make reductions that tracked with and went beyond the termination of the Board's domestic route and rate authority. All activities performed currently will continue until sunset, and most will transfer.

However, as our work force levels decrease we are well aware that we will be required to make difficult choices on work that comes our way. While these newly designated priorities and departures from normal procedures may disappoint and perhaps frustrate some airline managers, communities and consumers, we will keep any disruptions to a minimum and still perform our statutorily required functions to the best of our ability.

This concludes my statement and if you have any questions, I will be happy to answer them. I guess NTSB answered most of the economic ones.

Senator KASSEBAUM. Well, I do not know about that. I think, as I mentioned to you, one of my concerns—and I think it is one that certainly Senator Exon would share too—is about the essential air service and maintaining a level of community services that we feel is important.

So my first question to you is: As an example of the importance of the essential air service, it has caused some concern, that you felt it necessary to close the Boston and Atlanta field offices, or recommended that those be closed. I wondered if you could explain the mechanics of your thinking in that decision and if this was a decision that the Board felt strongly about as well.

Mr. MCKINNON. Senator, could I back up a little bit now? I will explain how we got to the way we went on that project. We set up those offices in 1978 and started deregulation when the essential air service program first got underway. Those offices were designed to help smooth the entry of the essential air service program and phase out jet service in those communities.

They served very well. There were a lot of problems in the communities explaining the new program to people, getting them familiar with it, handling community questions, handling air carrier questions. They did a lot of work in those areas. And gradually, as time has gone by, they have taken care of most of the phase-in to the essential air service program. We are down to a very smooth-running operation in most areas. We have a few rough corners in some places, but by and large it is a very well operated program. It is a great concept.

At the same time, in 1982, the budget of the Civil Aeronautics Board for salaries and expenses was $26 million. In 1983, OMB gave us a budget of $24.5 million. The House approved $24.375 million, almost our asking figure. The Senate committee gave us $21.9 million.

Now, at that, the hair on the back of my neck stood on end and on all the Board members, because when you are getting into those kinds of percentage cuts, that is enormous. I got excited. I went over to the House committee and said we need help, at least in a compromise between $24.375 and $21.9. We need an absolute, barebones minimum of $23.5.

I explained that to Congressman Benjamin, who died shortly thereafter. I started over again with Congressman Lehman, who ended up in the hospital seriously ill, as I understand it. At that point I lost all my allies over on the House side.

I came over to the Senate, prepared a paper that we presented to every Senator and every Member of the House—anybody that we could find who would listen to us about our need to have $23.5. I talked to you. I talked to Senator Cannon at the time. I talked to the assistant majority leader, Senator Stevens, whose chief of staff even went and talked to Senator Andrews about our severe needs.

We just got nowhere. So we put everybody on notice and on the list we sent to you at the time, we pointed out some of the serious consequences we could foresee. No. 1 was that all five community assistance field offices may have to be closed.

So we had a problem. We have a budget problem and, as you know, we had to sit down and evaluate our priorities. We tried to evaluate what priorities were most important. Those field offices are important. I feel particularly the Alaska, San Francisco, and Washington field offices are absolutely essential. We drew some parameters and determined what we were going to cut.

Rather than taking a RIF or furloughing employees, we chose to phase out what programs we could. And the phaseout of these programs was fairly successful. In our field offices in 1980 they were quite busy; in 1981 they were even a little busier; then in 1982, the work-load dropped off dramatically.

So we felt that we could get along without some offices during that period of time. For example, in 1980 the trips out of the field offices were 96. In 1981, our staff in these field offices took 160 trips, and in 1982 there were only 34 trips outside the offices. That meant in days traveled in 1980 there were 250 days; 1981, 448 days; 1982, down to 92 days of travel.

We felt, when we looked at the options we had, that this was the wisest place to cut to avoid getting into a RIF. The real problem we are going to be faced with at the Civil Aeronautics Board in a RIF is having about 50 percent of the staff doing functions that they have never done before. And when you get into the payments to air carriers of around $50 million a year, if you have new people doing new jobs, I can guarantee you that you will be wasting millions of dollars in inefficiencies because people will not know what they are doing in what is now a fine program.

Senator KASSEBAUM. If you had the additional money, would you recommend keeping those offices?

Mr. MCKINNON. If we had the additional money, the first thing I would want to do is evaluate what are the most important jobs we are involved in. If this is most important, yes. It is nice to have, but they are going to be phased out. They were scheduled to go out anyway at the end of the CAB's life at the end of 1984.

Senator KASSEBAUM. What else do you regard as a top priority?

Mr. MCKINNON. Well, our international air service is a top priority. So is the operation of handling payments to EAS air carriers, being sure the staff is able to handle those. If we do not get the money out right away, some of the little carriers are right on the verge of winning or losing the financial battle, so we want to be sure those financial payments are made promptly.

We have the consumer aspects—everything else the Board does. Incidentally, you also loaded a couple of extra things on to us with the study of airport access that I was asked to chair for the Congress. We are also in the process of conducting a computer reservation bias study mandated by Congress without any additional funding.

Senator KASSEBAUM. This is one of the reasons that you feel the supplemental funding is important?

Mr. MCKINNON. Yes, ma'am. We need every nickel of that $700,000, and we need every nickel of the $20.9 million—every single nickel of it.

What happened in our budget, when Senator Andrews got through with us, we in essence skipped a year of phasedown. He just skipped 1 year in our budget. We are really operating this year on the budget we should have been operating on next year, so we really had to squeeze a lot.

And, as you know, the economy has a direct impact on our attrition rates. We need six people to leave a month. We need to get down to 130 people by the end of September 1984. That is a lot of people, and if we have a good economy, it will help.

Senator KASSEBAUM. This 130 you lose by when?

Mr. MCKINNON. September 1984.

Senator KASSEBAUM. That will be regardless of what amount of money is in the budget?

Mr. MCKINNON. Yes, ma'am.

Senator KASSEBAUM. Is that the phase-out level?

Mr. MCKINNON. Yes. About 4 years ago we set as our goal about 350 to 375 people that the Civil Aeronautics Board would have left when it folded over into DOT, and a little bit to Justice, but you will probably want to look at that at the end of 1984. We are pretty well on track. We feel that is going to be just about the right figure.

Senator KASSEBAUM. I will yield. I will have some other questions when we get back.

Senator Exon?

Senator EXON. Thank you, Madame Chairman.

Mr. McKinnon I am going to be very brief in my questioning. I will be submitting several questions for the record,[1] if we can get that approved now, Madame Chairman, that I think will take some time to answer. There is no use going through them here today.

Senator KASSEBAUM. Without objection.

Senator EXON. And Senator Hollings, who unfortunately had a conflict and cannot be here today, has several questions that we would like to submit for the record,[2] if you would respond.

Mr. MCKINNON. Yes, sir.

Senator EXON. Let me ask a general question that hopefully will allow you to expand on as to where we are going with the funding for the CAB. One thought that occurs to me, Mr. McKinnon, as I see the CAB approach its sunset date, is that I am wondering what is driving the budget. More specifically, is it that the sunset itself is driving your budget request down as you phase out the program, or

[1] See p. 12.
[2] See p. 11.

rather, is it the need for reduced spending that is dictating the scope of your agency's activities, forcing you to reduce in size so that you can not carry out what you think is critically necessary during this spanning period?

I call it a spanning period because I think it is a critical period, and it seems to me that we look pretty shortsighted at things if the CAB budget is reduced to the point where you cannot adequately function. If we are going to do that, it would make more sense not to go through the sunset, but just end it all right now and transfer the remaining functions.

I get the feeling that you at CAB feel that you have been unreasonably squeezed. Do you think that is primarily driven by the dictates of some to reduce spending? Or do you think that some people think there just is not any need for the CAB, period, and the quicker we get rid of it, the better?

Mr. McKINNON. Well, I think the answer would be both. The reduction in budget is dictated by the reduction in the operations, and it is also dictated by the fact that our phase-out is coming, but I think the real thing is, we will have enough budget to operate efficiently if we get everything we requested in this budget. We were really squeezed a lot this past year, and that has caused a lot of problems adjusting. We have some people who are wearing two or three hats, and it is making very inefficient workers out of them. We think if we get all the money, we can handle it more efficiently.

You are still going to have some of these functions remaining at the end of 1984 and we are getting down to those people who would be necessary to perform those remaining functions that we do not want to decimate through a RIF. I think the one fear I have is that the CAB would hand over an inefficient operation to the DOT at the end of 1984.

Senator EXON. I think that is the point I am trying to get at. That is, while it is nice to save money, when you are winding down an agency that has been so active for so long, and had such an important role to play, if we wind it down too quickly, we may short-circuit paying dearly for it down the road.

Is that more or less your belief, as well as that of the other members?

Mr. McKINNON. That certainly is a possibility. We want to be very prudent with the taxpayers' money, on the other side of the equation, but we were really hurting in our last budget—I think we sort of weathered the storm somehow, and we have really figured out how to reduce, but if we do not maintain this attrition rate of six people a month, if we do not get that $700,000 supplemental right to the nickel, then we are going to have real problems, and I will be back around pounding on your doors all over again.

Senator EXON. Well, we certainly recognize that, and at least as one member of the committee, I salute you for speaking up on what you feel is the absolute minimum, because that is your job. I admire you for taking that stand rather than simply shrugging your shoulders and slinking back into the woods and saying, we will work it out some way, because I recognize you have some responsibilities.

I have no further questions that I will submit at this time, but as I said earlier, there are several detailed questions for the record that I would like to have you respond to.

Thank you, Madame Chairman.

Senator KASSEBAUM. Senator Lautenberg?

Senator LAUTENBERG. Thank you, Madame Chairman.

I am not sure that I understood fully your comments about the regional offices. Is Boston the only one now scheduled to be closed? You mentioned four or five others. Is Boston the only one that is scheduled now for closing?

Mr. MCKINNON. No, sir. We have scheduled two offices for closing on April 30, 1983. We scheduled the Boston office, which was composed of two people—one director and one secretary. We scheduled the Atlanta office, which is composed of one person, and one person of the two in the San Francisco office will remain. These are not 12- or 14-member offices, like a lot of agencies have. They are just individuals. And we will handle the eastern U.S. out of the Washington offices and the western U.S. and of San Francisco and Dallas.

Senator LAUTENBERG. One person out of the San Francisco office?

Mr. MCKINNON. Yes, sir.

Senator LAUTENBERG. But the office will continue?

Mr. MCKINNON. Yes, sir.

Senator LAUTENBERG. Can you in capsule form just tell me the functioning of those regional offices, again, in short form?

Mr. MCKINNON. Again, the regional offices are to keep contacts with the community, so if there are problems with the essential air service program, the little commuters in those communities are able to take up the impact. We closed the Kansas City office about 8 or 9 months ago, and there was no problem with that. We picked that up in some other areas.

Senator LAUTENBERG. Is that true, Madame Chairman?

Senator KASSEBAUM. That is true.

Mr. MCKINNON. We feel the really critical area right now in the United States is out on the west coast. There are some real problems out there. And in Alaska we are going from the section 406 to 419, so we are going to need somebody on the scene up there for the transition.

Senator LAUTENBERG. I do not know if that has anything to do with—I am by far the only member from the Northeast on this committee, while the West seems to have a distinct geographic advantage.

Mr. MCKINNON. You can probably get from your area quicker to Washington than you can to Boston.

Senator LAUTENBERG. Yes, there are pretty good rates. I have flown down for $19. That is pretty good service.

Senator EXON. Try going to Lincoln, Nebr.

Senator LAUTENBERG. I do not have to.

So you see no impairment really as a result of these additional closings?

Mr. MCKINNON. No, sir.

Senator LAUTENBERG. OK.

Senator KASSEBAUM. If I could just offer a comment. It is not so much, the impairment in service, it is that those of us who are

very supportive of essential air services and the community service relationship believe that it is more a symbolic severing perhaps than actually losing an important tie. I think that is the concern, because that has been a function of great importance, and it needs to continue to be. I think that that is the concern maybe actually more than just the closing down of that office in and of itself. It has developed somewhat of a symbolic importance.

Senator LAUTENBERG. OK. I am sure you are aware that in the Northeast there are lots of communities that are not big population areas that have relatively poor transportation service. I am talking about Maine, New Hampshire, and Vermont, as well as some of the other States. They are always crying for additional service, and are their voices heard as well at this distance as they are when there is a regional office more accessible to them?

I guess it depends on how you function.

Mr. MCKINNON. Sir, When I arrived about a year and a half ago at the CAB I was really impressed with the quality of people. I think they are very sensitive to the needs of any people in the country, and they get their service quickly, and they respond to their problems quickly.

Senator LAUTENBERG. OK. I hope you include Martha's Vineyard in there. I grew up there in the summertime.

So, as I understand your comments, you agree with the reductions that are taking place, other than perhaps the pace at which they are occurring?

Mr. MCKINNON. We are on track now. It was sure tough getting down to where we are when we got squeezed last fall, when the continuing resolution was finally finalized in our budget.

Senator LAUTENBERG. But it is your expectation that a reduction of 130 positions in fiscal 1984 is something that will still allow you to continue your operations, particularly as you approach this twilight?

Mr. MCKINNON. Yes, sir. If we do not get that attrition rate, we might be back to you. I would like to leave that little caveat of 130 people. If we cannot get down, then we get into either RIF's or long furloughs, and that could create problems with the programs, and I would like to leave that little hole open to come back to you. What is going to determine that more than anything else is the economy. If you get a good economy, it is easier for people to get jobs and leave. If it is a bad economy, it is hard for them to go out and get employment, so they will not leave as quickly.

Senator LAUTENBERG. There was one word you used that passed very quickly. Did you talk about a computer system that you said was in process or that was eliminated? Did I understand you correctly?

Mr. MCKINNON. In our appropriations bill, there was a paragraph inserted for the Civil Aeronautics Board, in conjunction with the Department of Justice, to investigate the bias in the reservation computer systems used by the airlines to book airline travelers. We are in the process of studying that bias now. Frankly, I think it is the single most important factor involved in effecting the deregulation system.

Senator LAUTENBERG. What kind of a bias?

Mr. McKINNON. There are about five or half a dozen computer systems, but United Airlines has a computer reservation system that they sell to travel agents. There is some very easy to see bias and some very subtle bias. You look through the computer, the travel agent dials up to see what airline he is going to book you on. You say you want to leave Newark to come down here at 8 o'clock in the morning. They punch up 8 o'clock. On the United computer, it might show lot of United Airlines flights, but you may have to punch three, four, five, or six pages of the computer to get to some of the other airlines flights that may be leaving at the same time. Are they balanced out? Is it being fair to all involved? Or how far can they bias that computer to their own selfish interests before it affects competition?

And that is just a very simple subtlety. There are a lot of ways tickets are written and charges are made that we are checking out. We are going to report back to you, the Congress, what those are. I guess you will make a determination after you see our report what to do with it. I understand the House is going to hold hearings. I do not know if you will or not.

Senator LAUTENBERG. Thank you, Mr. McKinnon.

Thank you, Madame Chairman.

Senator KASSEBAUM. And you say, Mr. Chairman, the $700,000 supplemental is to cover that study?

Mr. McKINNON. No, that is just to keep us operating. That study was given to us to do, and we sort of have to do that with all the other things that we are doing that are part of our normal program. There was no money allocated toward that study. The $700,000 just covers our normal operating functions, and we just squeeze the study into it. The $700,000 actually was half of the $1.4 million we needed because of the pay raises you passed. We are absorbing $700,000 of it, and we need $700,000 to make it up.

Senator KASSEBAUM. Well, I think it is a problem I would share with that expressed by Senator Exon and Senator Lautenberg. As you phase down, it is a question of morale. It is a question, I think, of confusion, of knowing what lies ahead day by day, but it helps us if we have some certainty of your planning as well. You want to know what we are thinking as far as where CAB is going, and in turn we feel that it would be very beneficial to have some fairly firm guidelines about your spending priorities.

I myself think it would be very useful to see those priorities. If indeed even with an unlimited budget you would feel it was not important to keep the Atlanta and Boston offices open, which I am assuming from the testimony here today you would feel. So what are your priorities as you approach sunset.

We will be having another sunset hearing on CAB the end of April or the first of May. We held a rather extensive one a year and a half ago. I think, will be necessary and important to help us all understand how the functions should be phased out as we look at the termination of the Civil Aeronautics Board.

Mr. McKINNON. I think that is a very important thing for you to do, Senator. There are certain things that we are dealing with the Department of Transportation now trying to come to a consensus on how we think some of the operations of CAB ought to be trans-

ferred around. I think you would find some of that very interesting.

Senator KASSEBAUM. Do you have any other questions?

Mr. MCKINNON. I would like to ask one other thing. I assume—I hope we have answered your questions about these offices and problems. You sent a letter that the four of you had signed. Are there any further questions on that letter, or can we consider that we have answered your questions today and proceed as we are proceeding?

Senator KASSEBAUM. Well, you have made it very clear that you do not feel that it is necessary to continue those offices.

Mr. MCKINNON. I am very sensitive to what you have to say, Senator.

Senator KASSEBAUM. I think that we have to analyze if this is taking additional staff time from your staff here to meet some of those functions, which is my understanding, and if that tradeoff is one that is practical.

Mr. MCKINNON. You talked a little while ago about a smooth phased operation. That is what we are trying to do. We give those people 90 days. We try to make everything run in a smooth way. You cannot be jumping from one thing to another so people know where they are going, and who is going to have to do what. We are trying to plan ahead as far as we can on this, and this is part of our plan. That is why we gave them 90 days to plan ahead rather than do it in 2 weeks.

Senator KASSEBAUM. I know it is not easy. When I asked you in the beginning about the process that you went through in trying to analyze the closing down of the offices, and if they should be, and what ones should be, does the Board meet together to determine those priorities?

Mr. MCKINNON. The Board meets together to determine the Civil Aeronautics Board budget. We did have a brief meeting on this particular item. The staff and I sat down and discussed where we were going to be able to save some money within the internal operations of the Board. I did discuss it with the Board. I think all members of the Board are on board for this, although I think some of them would just as soon it did not happen. But when you pick your priorities, this is part of the right priorities of where we have to go.

You can have your druthers, but if you have only got so much money to spend, where are you going to spend it? That is where we are.

Senator KASSEBAUM. Is there anything else?

[No response.]

Senator KASSEBAUM. Thank you, Mr. Chairman.

Mr. MCKINNON. I can consider you have no other questions on this in answer to your letter?

Senator EXON. Well, you keep answering that question.

Mr. MCKINNON. Well, I am just afraid it will come back to me.

Senator EXON. Well, the chairman has made quite a point. Let me say this. I would suggest to the chairman that it would be wise of you to formally answer the letter that you received from myself, the chairman and Senators Hollings and Packwood.

Mr. MCKINNON. I just got it the other day.

Senator EXON. I think it would be wise for you to answer that in some form. Most of us here recognize the difficult situation that you are under, but the lack of questioning here, since all of the members that signed that letter are not here today, does not indicate, I think, nor should it indicate to you that we say that is a good idea.

Senator KASSEBAUM. I think you can see how important we regard community services. And certainly I share with Senator Exon the problems that you are faced with. One, a much bigger budget cut than you had anticipated, and therefore the need to make those adjustments. But we are not signing it off just because we are not pursuing this anymore right now.

I think there is an appreciation of the problem from your standpoint, and I am sure you appreciate our questioning on this.

Mr. MCKINNON. I sure do.

Senator KASSEBAUM. Now, I think it is important, and we feel that you would, too, as far as getting anything on the record, and responding to the letter, and then we will take a look at it.

Mr. MCKINNON. So that we have a smooth transition, our intent is to go ahead as we planned, but I will answer the letter and give you very thorough reasons why we are doing that.

Senator EXON. I think that is what we want.

Senator KASSEBAUM. Thank you.

Mr. MCKINNON. Thank you.

[Whereupon, at 3:14 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR HOLLINGS AND THE ANSWERS THERETO

Question. What are your thoughts on the recent proposal offered by Senator Andrews to create a Presidential Commission to review airline deregulation and fare discrimination?

Answer. The Board has not taken a position on this proposal. There are a lot of questions on certain aspects of deregulation. However, we feel certain were such a Presidential Commission convened that the basic tenets of deregulation—free entry, pricing and reliance on the marketplace to make decisions—would survive.

Question. Has the Board been able to accumulate any data on how airline fares have reacted since January 1, 1983, when the regulation of domestic fares was eliminated? If so, what can you tell us about them?

Answer. Some domestic fare data will be available, but the first quarter of official data for 1983 will not be reported by the carriers until May. As a result, I can't tell you much at this time. However, if we do some analyses of fares after several quarters of data are available, we would be glad to provide you with a summary of our findings.

Question. You have requested an increase for the Payments to Air Carriers program by $2.4 million, bringing that request to $50.8 million. Is this a large enough increase given the continuing increases in airline operating costs?

Answer. We believe it is. The request is based on our estimate of about $300,000 per point for the 120 points in the Continental U.S., plus $10 million for Alaska and an inflation and contingency factor of approximately 5 percent.

These estimates are based on our actual experience with this new program over the past 4 years.

Question. Your fiscal year 1984 request assumes a reduction of 77 positions. If this rate of attrition is not achieved, you claim that supplemental appropriation will be needed. Understanding that such a request is months away, can you anticipate a range of funding, so that we may plan for such a request?

Answer. We will require an attrition rate of six to seven employees a month to remain within our fiscal year 1984 budget request.

Our attrition rate has been falling from 13 employees per month in 1981, to 8.5 in 1982 and only 6 a month thus far in fiscal year 1983.

If our attrition rate continues to drop, we may have a monthly attrition of only three to four employees a month in fiscal year 1984. This would be 2 to 4 less than required.

Based on current salary rates, missing our monthly attrition rate by just one employee would cause a shortfall of approximately $250,000. So we could require as much as $500,000 to $1 million in supplemental funding if our current attrition rate drops.

QUESTIONS OF SENATOR EXON AND THE ANSWERS THERETO

Question. One thought worries me, Mr. McKinnon, as I see the CAB approach its sunset date. That is, is the sunset driving down your budget requests as programs are phased out, or is the need for reduced spending dictating your plans for sunset?

Answer. Through fiscal year 1982, it can be said that the Board's budget requests reasonably tracked with our declining domestic aviation responsibilities.

However, with the severe budget cut we experienced this past December for fiscal year 1983—we requested $24.5 million for fiscal year 1983 and the Congress approved $23.125—we've had to make some cuts we would rather not make at this time.

OMB's fiscal year 1984 allowance of $20.9 million was based on the lower fiscal year 1983 figure. We are now in a situation where budget considerations in many instances are taking precedent over program considerations.

Question. Your fiscal year 1984 request is for $20.9 million for CAB Salaries and Expenses. What was your original request to the Office of Management and Budget? What was their justification for reducing that request?

Answer. Our original request to OMB was $22.3 million, 440 workyears and 414 positions.

OMB gave us no official or written justification for the cut. However, we believe that it was based on the severe reduction we experienced in Congress on our fiscal year 1983 request.

Question. If we recommended to the Appropriations Committee a higher level for Salaries and Expenses for fiscal year 1984, could you effectively use it? If so, how would you allocate it?

Answer. We would first moderate the reductions we have planned in our priority programs—Community Assistance and Small Community Air Service and Subsidy and International Negotiations, Operating Authority and Pricing.

At a higher funding level, we would have more flexibility in getting down to our transferring level without resorting to adverse personnel actions such as RIFs, which are possible in early fiscal 1984 because of currently low attrition.

A higher S&E funding level would mean that we can continue certain services or service levels longer than planned, retain more core personnel who would not be scared off by cuts, and we would not have to "live or die" by attrition.

Question. In your prepared statement, you discussed the closing of two regional offices, those being in Atlanta and Boston. What was the rationale in making such a decision? Will the letter sent to you by myself and Senators Kassebaum, Hollings and Packwood cause you to alter your decision?

Answer. Because of the severe budget constraints under which the Board is operating we were forced to review areas where further cuts could be made. We have already made substantial reductions in our non-salary items and are faced now with eliminating personnel. As you know, the Civil Service regulations limit our ability to reduce our staff in any systematic way without risking enormous disruptions in our on-going programs. For this reason, and with regret, we decided to reduce our regional presence and reorganize those activities.

As a result, our regional network has been reduced from five regions to two—an eastern and a western region. The offices in Atlanta and Boston will be closed as of April 30. This reorganization does not affect our Alaska Office in any way.

The Board is not happy with this decision but we believe that we can make it work. While we believe a regional presence is important, the activity in the regional offices is not as intense as it was during the formative stage of the small communities program. Because of this we think we can handle much of the liaison work in the Eastern region through phone contact and occasional trips from Washington.

We wish we could reevaluate our decision in light of your concerns and also wish that we had been able to close the offices in a more orderly fashion, with more notice to all involved, but budget constraints have made this impossible. I can

assure you that the Board wants to continue to receive the community perspective as a permanent part of its deliberations.

Although we do not expect community participation to be reduced by our consolidations, we understand that some state and local officials may be concerned by the change and perceive it as signaling reduced attention to their needs. I have requested our community staff to make special efforts, as the new organization takes effect, to reassure these communities that their views remain important to us.

Statement of Senator Pressler

Mr. Chairman, I am very concerned about recent developments related to the Civil Aeronautics Board (CAB), which I believe could be very harmful to already hard-hit air service programs in rural areas like my own home state of South Dakota. Specifically, I am referring to the proposed reduction in the number of regional offices to begin this April; the reduction in Essential Air Service (EAS) determination; and the increased "bumping" activities that are almost certain in this setting.

First, Chairman McKinnon, I would like to address the proposed reduction in the number of regional offices. These offices are extremely important to local communities in understanding and dealing with the many problems and changes in airline deregulation. Given the recent upheaval in air service and the changes that are on the horizon, I think maintenance of these regional office services is more important now than ever.

The most recent closings of this type included the Kansas City regional office which served South Dakota. Although the present staff here in Washington, which now serves South Dakota has done an excellent job given the increased workload, the pinch was certainly felt. I have received numerous calls from South Dakota, expressing great concern over additional office reductions.

Questions of Senator Pressler and the Answers Thereto

Question. How will the regional offices, already working with reduced staff, be able to provide the needed service with these further reduction?

Answer. Under the new arrangement we will strive to see that communities throughout the country will have as close to the same degree of access to, and participation in, the Board's processes that they had previously.

The major change will be that eastern region communities will have their concerns handled by our Washington staff directly. State and local officials throughout those affected states are already being told which CAB staffers will serve their needs in the future; after April 30, necessary field visits will be made from Washington rather than Atlanta or Boston.

During the infancy of the EAS program the need to explain the effect of deregulation and the implications of the service guarantee provisions of the Act to affected communities required a good deal of personal contact. That stage of the program required a widely dispersed regional staff to assist communities in becoming familiar with the new, policies, and rules.

Since then, however, the EAS program has stabilized and matured. Much of the day-to-day contact with the communities can be handled over the phone. We realize the value of having a representative living in the region, familiar with the peculiarities of each community, operating with the confidence of the local government, airline and airport officials and providing that personal link between Washington and the community. We have kept the number of regional offices that we consider absolutely necessary and we will do our best to see that the rest of the country receives strong representation have in Washington.

The Board wants to continue to receive the community perspective as a permanent part of its deliberations and will do nothing to impair the ability of local communities to give us their views in these areas that are of such paramount interest to them.

Question. I would be interested to know how significant a role the "common carrier" principle plays in the CAB's EAS discussions?

Answer. Perhaps the best way to answer your question is to briefly review how the Board determines essential air service for small communities. Statutorily, the Airline Deregulation Act sets the floor for essential air transportation as two scheduled round trips five days a week or the level of service in effect in calendar year 1977, whichever is lower. Beyond this, the Board has issued essential air service

(EAS) guidelines for defining essential service for all eligible points that require EAS guarantees.

As a general proposition, the Board guarantees that a point will receive a minimum of two round trips on weekdays and a total of two over the weekend to a hub airport which will provide the city with access to its primary community or interest and to the national air transportation network. In addition, it is guaranteed a minimum seat level based on its current or its most representative level of passenger enplanements. In setting the seat level, we apply two different load factor standards depending on aircraft size—50 percent for aircraft having six to eight passenger seats and 65 percent for those with more than eight seats. Thus, a community which enplanes 20 passengers a day, for example, would be guaranteed 40 available seats daily, if it were served with 6–8 seat aircraft, and 31 seats for larger aircraft.

We require that this service be held out to the travelling public by publication in the Official Airline Guide. We also attempt to select essential service carriers that have joint fares and interline agreements with major carriers so that the public can enjoy the full advantages of the air transport system.

Question. Does the Board ever recognize "air freight" in its EAS determinations (as opposed to only passenger boardings)?

Answer. Since section 419 of the act specifies that essential air transportation is only the transportation of persons, and because of the availability of surface transportation in most states, we do not consider the freight requirements of a community in making essential air service determinations. We have one exception to this policy and that is Alaska. Most communities in Alaska rely exclusively on air transportation for their material needs. Also, the statutory definition of essential air service for Alaska differs from that of the lower 48 states. Thus, it was on this basis that we have included cargo requirements in our EAS definitions for Alaska. We have not found it necessary to require a similar provision for states other than Alaska.

Question. Is there any administrative mechanism available to you that would guarantee these hearings and would you be willing to pursue such course?

Answer. In December 1982, the Board adopted Part 326 of its Procedural Regulations concerning procedures for bumping subsidized air carriers from eligible points. An important part of those procedures is the opportunity for the communities affected by bumping to express their views on the bumping application. In this respect the Board has adopted a flexible approach toward hearings which was proposed and supported by many communities. In most cases, the Board will use show-cause procedures in bumping cases. We believe this will provide the communities with a number of occasions in which to comment on the applicant in answers to the application and in response to the show-cause order. In most instances, the issues in a bumping case are likely to be questions on how to interpret or apply a given set of facts. We believe these questions ordinarily can be resolved on the basis of pleadings and written record. In addition, we anticipate that civic officials will examine applicants in meetings held at the community. However, where there are significant decisional facts in dispute, the Board will conduct an oral evidentiary hearing and the civic officials are free to participate as full parties in such cases. In all of the bumping cases, we will afford the community and the incumbent ample opportunity to be heard and, as required by law, we will give great weight to the opinions of the communities affected by a bumping application. Thus, procedures incorporating the hearing mechanism are already in place.

CIVIL AERONAUTICS BOARD,
Washington, D.C., March 17, 1983.

Hon. ROBERT PACKWOOD,
U.S. Senate,
Washington, D.C.

DEAR BOB: At the outset, I want to assure you that under our new regional alignment, we will strive to see that communities throughout the country will have the same degree of access to and participation in the Board's processes that they have had all along.

I have carefully considered the issues you raised in your February 24 letter about the Board's decision to close its Atlanta and Boston regional offices and to reduce its staff in San Francisco as of April 30.

I appreciate the opportunity I had recently to allay some of those concerns when I appeared before the Aviation Subcommittee, and hope that this letter will explain our action in greater detail.

As you know, the Board has been faced with a series of funding cutbacks since October 1982. Our original OMB budget submission requested $27,145,000 but OMB cut our request by over $2.6 million to a funding level of $24.5 million. The House further reduced this amount to $24,375,000 and the Senate cut it back even further to $21.9 million. A compromise level of $23.5 million was proposed by the Board as a bottom-line level with which we could continue to function.

But that amount was reduced in the House and Senate conference to $23,125,000, which was our final appropriation. Thus, our original request was cut by more than 4 million dollars.

This substantial budget reduction has required a number of decisive cost-cutting measures. We have already made substantial reductions in our non-salary items and are faced now with eliminating personnel. As you know, the Civil Service regulations limit our ability to reduce our staff in any systematic way without risking enormous disruptions in our on-going programs. For this reason, and with regret, we have been forced to close our Boston and Atlanta regional offices, and consolidate their functions in Washington.

After passage of the Airline Deregulation Act in 1978, the Board established regional community offices in Atlanta, Boston, Dallas, Kansas City and San Francisco to work directly with state and local governments and civic and industry groups. This regional network, which also included the Board's Washington office and a long-established Anchorage location, was originally intended primarily as a transitional aid to help the Board explain the new essential air service program to community groups, respond to their concerns, and receive their views and reactions to the major air service changes that were rapidly taking place throughout the country under deregulation.

The offices helped to develop policy guidelines for the program and to organize and participate in regional seminars conducted by the Board to explain the new community program. As the Board made essential air service determinations for each state and its eligible communities, conferences with local officials and statewide essential air service meetings were organized. Regional staff used these meetings, telephone contacts, and correspondence to explain the initial Board determinations of guaranteed air service.

The sessions provided a forum for discussing and explaining Board policy and procedures, and assisting state aviation directors to take the lead in developing and promoting air service.

At the present time, community reactions to Board decisions are relayed to Washington. This information enables the Board to monitor air service reductions through the regional offices, and identify and resolve informally any shortfalls in essential air service during the transition period.

Regional activities are designed to assist communities in improving the air services they receive or legitimately require, and to acquaint state and local interests with changes in law and policy involving air carrier route, rate, subsidy and essential air service matters.

The regional offices solicit the views of all concerned parties and ensure a two-way flow of information on all aviation-related activities in order to bring the Board to its constituency. They also serves as liaison offices for congressional inquiries involving the Board's data resources, statistical information, and air transportation analyses.

On the other hand, Washington staff has also been responsible for making field visits and has supported the regional operation with economic, financial and statistical data required for a thorough analysis of air service problems and new service opportunities for potentially interested carriers.

As a result of an examination of the need for a Midwest office seven months ago, we closed our Kansas City facility and combined the Mid-Atlantic and Midwest regions. We have found that the combined region is being handled quite well from Washington. Indeed, since the closure of the office, we have not received any complaints from the affected communities.

As a result of the most recent reorganization of our regional program, eastern region communities will have their concerns handled by our Washington staff directly. State and local officials throughout those affected states are already being told which CAB staffers will serve their needs in the future. After April 30, necessary field visits will be made from Washington rather than Atlanta or Boston. Presently, no further changes or closings of regional offices are planned.

The Board is not happy with the decision to close the Atlanta and Boston offices but we believe that we can make it work. While we believe a regional presence is important, the activity in those offices is not as intense as it was during the formative stage of the small communities program. There is not as much travel from the

field offices to communities as there was when communities were being introduced to the Essential Air Service Program. Because of this we think we can handle much of the liaison work in the Eastern region through phone contact and occasional trips from Washington.

We wish we could reevaluate our decision in light of your concerns and also wish that we had been able to close the offices in a more orderly fashion, with more notice to all involved, but budget constraints have made this impossible. I can assure you that the Board wants to continue to receive the comminity perspective as a permanent part of its deliberations.

Although we do not expect community participation to be reduced by our consolidation, we understand that some state and local officials may be concerned by the change and perceive it as signaling reduced attention to their needs. I have requested our community staff to make special efforts, as the new organization takes effect, to reassure these communities that their views remain important to us.

We will do nothing to impair the ability of local communities to give us their views in these areas that are of such paramount interest to them.

Sincerely,

DAN MCKINNON, *Chairman.*

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